

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch**

**RESOLUTION T-16876
October 28, 2004**

R E S O L U T I O N

Resolution T-16876. Approval of the California High Cost Fund-A (CHCF-A) Administrative Committee (AC) Fund Expense Budget for July 1, 2005 Through June 30, 2006 to Comply with the Requirements of Public Utilities Code Section 270 (A).

Summary

This resolution adopts an expense budget of \$ 42.598 million for Fiscal Year (FY) 2005-06 for the California High Cost Fund-A (CHCF-A) program.

Background

The California High Cost Fund (HCF) was implemented by D.88-07-022 as modified by D.91-05-016 and D.91-09-042 to provide a source of supplemental revenues to three mid-size and seventeen small Local Exchange Companies (LECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service.

D.96-10-066 changed the name of HCF to CHCF-A and created the California High Cost Fund-B (CHCF-B). This decision included the three mid-size LECs in the CHCF-B program for the purpose of determining universal service subsidy support and maintained the CHCF-A for the 17 small LECs.

CHCF-A is funded by a surcharge assessed on consumers' intrastate telecommunications services. Prior to October 2001, a tax-exempt trust was established for the receipts and disbursements of CHCF-A funds. In compliance with PU Code § 270 et seq., which were codified by the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677), the following events took place on October 1, 2001:

- the State Treasury created a CHCF-A AC Fund for the receipts and disbursements of CHCF-A funds; and
- the Commission created CHCF-A AC to advise the Commission regarding the development, implementation, and administration of the CHCF-A program.

§ 270(b) requires that the monies in the CHCF-A and five other funds may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act. Since FY 2001-02, the CHCF-A Fund expenditures have been authorized in the State's Annual Budget Act.

On June 22, 2004, in compliance with Paragraph 4.a.1 of the CHCF-A AC Charter, the Vice Chairperson of the CHCF-A AC submitted a letter request to the Executive Director to publish the FY 2005-06 (July 1, 2005 to June 20, 2006) budget of the CHCF-A AC of \$ 42.651 million in the Commission's Daily Calendar. The Vice Chairperson's request was made in her personal capacity since the CHCF-A AC was unable to vote on this item because of a potential conflict of interest issue caused by Government Code § 1090 and the Fair Political Practices Act. The publication in the Daily Calendar was sought to enable the public to review and comment on the Vice Chairperson's letter request.

Notice/Protests

Notice of the CHCF-A AC Vice Chairperson's letter request was published in the Commission Daily Calendar of June 23, 2004.

The Commission did not receive any protests or comments on this matter.

Discussion

In this Resolution, the Commission adopts the CHCF-A expense budget for FY 2005-06 in the amount of \$42.598 million.

Appendix A shows a comparison of the CHCF-A Actual FY 2003-04 Expenses ¹, the FY 2004-05 Approved Expense Budget ², and the FY 2005-06 Expense Budget as proposed by the Telecommunications Division (TD).

¹ Based on the Certification of Year-end Financial Reports for Fiscal Year ending June 30, 2004 submitted on August 16, 2004 to the State Controller.

² The FY 2004-05 State Budget appropriated the amount of \$59.269 million for the California High-Cost Fund –A Administrative Committee Fund (Senate Bill 1113, Stats. 2004, Chapter 208). The Commission, in Resolution T-16793 approved a budget of \$ 47.87 million for FY 2004-05.

Although the CHCF-A AC Vice Chairperson submitted a proposed \$42.651 million FY 2005-06 CHCF-A AC Fund expense budget to the Executive Director, which was published in the Commission's Daily Calendar, this budget was never adopted and approved by the CHCF-A AC. Instead, TD proposes a FY 2005-06 expense budget in the amount of \$42.598 million as shown in Appendix A of this Resolution.

The proposed FY 2005-06 CHCF-A budget is \$42.598 million with \$30.987 million allocated to claim payments or monthly support to the small LECs, \$10 million for Assembly Bill (AB) 140,³ \$800,000 for financial, compliance and surcharge remittance audits, \$23,000 for banking fees, \$800 for Advisory Committee expenses, \$500,000 for Staff and Administrative Costs, \$210,000 for Inter-agency costs and \$50,000 for other operating and maintenance expenses (SQL programming and maintaining the electronic and monitoring system).

Comments

In compliance with PU Code § 311 (g), copies of the notice letter were mailed/e-mailed on September 28, 2004 to the 17 small LECs, the CHCF-A AC, and the parties of record in R.01-08-002 and A.99-09-044, informing these parties that this draft resolution is available at the Commission's website <http://www.cpuc.ca.gov/static/industry/telco/proceedings/resolutions/index.htm> and is available for public comments. In addition, the Telecommunications Division (TD) informed these parties of the availability of the conformed resolution at the same website.

Comments filed on a timely basis will be addressed by TD in this resolution.

Findings

1. In October 1999, Public Utilities Code (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669.
2. PU Code § 270(b) requires that the monies in California High Cost Fund-A (CHCF-A) Administrative Committee Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
3. On June 22, 2004, the Vice Chairperson of the California High Cost Fund - A Administrative Committee in her personal capacity filed a request to publish a \$42.651 million California High Cost Fund A Administrative Committee Fund Budget for July 1, 2005 through June 30, 2006 in the Commission's Daily Calendar.

³ Assembly Bill 140 § 7 adds § 276.5 to the Public Utilities Code ordering the CPUC to establish a grant program for aid in the establishment of telecommunications service in areas not currently served by existing local exchange carriers. The funding level is set not to exceed \$10 million per year.

This budget was never discussed or approved by the California High Cost Fund – A Administrative Committee.

4. The budget for the CHCF-A for FY 2005-06 of \$42.598 million, as set forth in Appendix A of this resolution, is reasonable and should be adopted.
5. Copies of the notice letter advising parties of the availability of this draft resolution and the conformed resolution, when adopted by the Commission on the Commission's web site were mailed/e-mailed to the 17 small LECs, the CHCF-A AC, and the parties of record in R.01-08-002 and A.99-09-044, on September 28, 2004.

THEREFORE, IT IS ORDERED that:

1. The expense budget for the California High Cost Fund-A (CHCF-A) for FY 2005-06 of \$42.598 million, as set forth in Appendix A of this resolution, is adopted.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 28, 2004. The following Commissioners approved it:

STEVE LARSON
Executive Director

APPENDIX A
CALIFORNIA HIGH COST FUND A ADMINISTRATIVE COMMITTEE FUND
EXPENSE BUDGET FOR FY 2005-06

	Actual <u>July 2003 - June 2004</u> ¹	Adopted per Res. T-16793 <u>July 2004 - June 2005</u>	Proposed <u>July 2005 - June 2006</u>	Adopted <u>July 2005 - June 2006</u>	
PROGRAM EXPENSES					
Carrier Claims	33,520,028.03	\$36,205,355	\$30,987,146	\$30,987,146	²
Other Program Services	\$0	\$0	\$0	\$0	
Other Legislative Mandated Programs	\$6,834,900	\$10,000,000	\$10,000,000	\$10,000,000	³
Administrative Committee-Per Diem	\$0	\$300	\$300	\$300	⁴
Administrative Committee-Travel and Others	\$0	\$500	\$500	\$500	⁵
Administrative Committee-Special Needs Accommodation	\$0	\$0	\$0	\$0	⁶
Financial Audit	\$0	\$100,000	\$100,000	\$100,000	
Compliance Audit	\$0	\$500,000	\$300,000	\$300,000	
Surcharge Remittance Audit	\$0	\$600,000	\$400,000	\$400,000	
Claim Audit	\$0	\$0	\$0	\$0	
Banking Fee	\$2,049	\$23,000	\$50,000	\$50,000	⁷
Interagency Cost	\$114,844	\$207,815	\$210,000	\$210,000	⁸
CPUC Staff and Administrative Costs	\$126,091	\$182,000	\$500,000	\$500,000	⁹
Other Operating Expenses	\$0	\$50,000	\$50,000	\$50,000	¹⁰
Total Program Expenses	\$40,597,912	\$47,868,970	\$42,597,946	\$42,597,946	

¹ Based on the Certification of Year-end Financial Reports for Fiscal Year ending June 30, 2004 submitted on August 16, 2004 to the State Controller.

² Claim payments are based on projections submitted by the LECs in May 2004.

³ Assembly Bill 140 provides transfer payments to telephone corporations providing service in high cost areas. At this time, only the CHCF-A program will provide funding for this program until certain issues relating to the California High Cost Fund -B are resolved.

AB 140 funding level is not to exceed \$10 million per year.

^{4, 5 & 6} Pursuant to D.02-04-059, per diem and other costs are authorized for committee members attendance in the CHCF-A Administrative Committee meeting. It is assumed that there will be 1 meeting a year.

⁷ This represent lockbox and access fees

A post office fee of \$750 for the lockbox is payable each fiscal year.

⁸ Refers to pro-rata costs allocated to state service agencies, e.g. DGS, State Personnel Board

⁹ This represents CPUC CHCF-A staff and administrative costs.

¹⁰ This represents costs for SQL programming and maintaining the electronic filing and monitoring system.